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ABSTRACT

Higher education currently faces more than a financial crisis: it faces five severe challenges to its performance and purposes: (1) public confidence in the value of a college education is weak; (2) educational demand is shifting from liberal arts to vocational courses; (3) teaching must be able to keep up with the rapid expansion of knowledge; (4) the student profile is changing considerably; and (5) the community college is becoming a potent educational force while small private schools are losing enrollment. Management for results, by a system the federal government's General Accounting Office calls performance auditing, may be a key to the survival of college and universities. Performance auditing requires management to clearly define and publish its objectives, develop standards and measurements of performance, obtain complete and reliable information for control, and determine whether or not costs can be reduced while maintaining or increasing productivity. This kind of audit may be particularly significant for private colleges and universities, where there is some concern that government is not treating private higher education equitably. (Author/MSE)

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Performance Management in Higher Education

by Elmer B. Staats

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Expenditures for higher education from all sources—federal, state, local, and private—will be about $45 billion for the 1976 fiscal year.[1] This is $3 billion less than the amount spent for all types of education a scant decade ago. Meanwhile, it has become commonplace in recent years to speak about a "financial crisis" occurring in higher education.

In the 1950s and 1960s colleges and universities equipped themselves for what appeared to be years of enrollment growth and prosperity. Unfortunately, the predictions of enrollment growth proved much too optimistic. Then, in the early 1970s, inflation and recession struck. Many institutions found themselves in a position of shrinking revenues, nagging fixed costs for idle plant and equipment, and wildly escalating costs for salaries and other operating expenditures. Now higher education faces more than a financial crisis, as the Carnegie Commission and others have written. It faces at least five severe tests of its performance and its purposes:

1. Public confidence in the relevance and value of a traditional college education has been shaken. The day is past when college graduates enjoy a substantial salary advantage over their noncollege peers. A surplus of college graduates is predicted for quite some time, with some fields such as teaching being glutted. College-aged youth may for the first time deliberately choose to become less well-educated than their parents, as Professor Hollomon of MIT has warned.

2. Educational demand is shifting from liberal arts toward vocational courses and programs.

3. Rapid advances in science and technology are challenging colleges and universities to see to it that every teacher is abreast of new developments and that every course is revised as the expansion of knowledge dictates.

4. One can no longer speak of a traditional college student as being a white male, ranging in age from eighteen to twenty-two. Increasing numbers of minorities, women, and older people are seeking entrance to institutions of higher education.

5. We are seeing the rapid rise of the public community college at a time when most small private colleges have excess capacity with the end of this trend not in sight.

Of particular concern in the last three or four years has been the future of private colleges and universities in the higher education community. Faced with the same problems as their public counterparts, but with few state or local resources to tap, they must resort to increased tuition charges and increased efforts to encourage alumni and public support.

Managing For Results Emphasized

How will higher education emerge from these tests? In my view, a substantial part of the answer lies in putting more emphasis on managing for results and reporting these results to the public and government funding sources at the federal, state, and local levels. Managers need this information. Those who provide the funds to run our colleges and universities need this information. And the information must be much more than that found solely in financial statements or analyses of financial transactions.

That is the case with the General Accounting Office (GAO). Our audits of federal operations and programs have come to be known by many labels—management auditing, operational auditing, performance auditing, program evaluation, and program analysis. While GAO developed this broader approach in auditing, the same concepts can be applied to day-to-day management of *any* organization, program, activity, or function. Since management auditing fits well with the performance management theme of the NACUBO annual meeting, let me discuss why GAO emphasizes performance auditing.

[1] National Center for Education Statistics. *The Condition of Education* (Washington, D.C.: Office of Education, 1976).

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The Evolution of GAO

GAO was created as an independent, nonpolitical arm of the Congress in 1921 by the Budget and Accounting Act of that year. That statute gave GAO three basic purposes:

1. To assist the Congress, its committees, and its members in carrying out their legislative responsibilities and those of oversight of the executive branch of the United States government.

2. To maintain financial controls over federal programs and operations. This responsibility includes legal, accounting and claims settlement work as well as auditing.

3. To make recommendations for increasing efficiency and effectiveness of government operations.

GAO procedures have evolved and expanded considerably over its fifty-five years to respond to many additional laws and to keep pace with changes in scope and complexity of federal activities, including those in education. In the beginning, GAO conducted its work almost entirely in Washington. There "central desk" audits were made of financial documents and vouchers submitted by the departments and agencies. These audits detected accounting errors or illegal expenditures. But as auditing has expanded in several ways, approximately one-half of GAO's staff today works outside of Washington and is drawn increasingly from professions other than those of law and accounting.

Of course, GAO is still concerned with fiscal and management accountability but increasing importance is placed on program accountability. Fiscal and management accountability audits determine if legal, regulatory, and other criteria are adhered to; and if public assets are managed efficiently and economically and are properly accounted for. Program accountability is a means of finding out if programs are achieving results intended by the Congress. In short, this is performance auditing.

What Is a Performance Audit?

A performance audit is an attempt to examine objectively the financing and operation of an organization, program, or activity. It tries to identify new opportunities for economy, efficiency, and effectiveness of operations. The audit approach is to test how control systems work, examine apparent weaknesses, report conditions found, draw conclusions, and make constructive recommendations for improvement.

Simply stated, the performance audit seeks answers to questions such as these:

How can waste or inefficient use of public money be reduced or eliminated?

Are government programs (that are administered either by government agencies or through contractors and other government units) achieving the objectives intended?

Are there other ways of accomplishing objectives of programs at lower costs?

Are public funds spent legally?

Is the accounting adequate?

Performance auditing has much in common with other changes in management processes, such as management by objectives, planning-programming-budgeting systems, and program evaluation. Management by objectives, as I am sure you all know, is a process for setting, watching over, and achieving goals. Planning-programming-budgeting systems involve budgets and financial reports which provide an effective information system that management can use for planning and control. Program evaluation seeks to find out to what extent a program or activity is achieving the goal for which it was created.

A performance audit is an attempt to examine objectively the financing and operation of an organization, program, or activity.

Auditing of program results is the most challenging but frequently the most rewarding type of audit. When auditors attempt this, they must find out whether management has defined clearly, and published, objectives and goals of a program or activity; developed standards and measurements of performance or output; obtained essential and reliable information for supervising, controlling, and ascertaining directions and trends; and determined whether the same or better results could be achieved at lesser cost. A GAO publication in 1972, entitled *Standards for Audit of Governmental Organizations, Programs, Activities and Functions,*[2] will give you a more complete description. And soon to be issued is another GAO publication that will be entitled *Evaluation and Analysis to Support Decision-Making.*

Administration of Student Financial Aid

Over the last several years, GAO has made a number of audits of administration of student aid programs such as College Work-Study, Guaranteed Student Loans, Basic Educational Opportunity Grants, and State Student Incentive Grants. We wanted to know how determinations were made of student financial need, packaging of aid, and fiscal management of student aid funds.

Common problems emerged from these audits. Documentation in student aid files as to analyses of financial need was poor. Decisions regarding the amounts of aid from different sources were not always recorded. Fiscal controls over funds granted to institutions or students were weak.

Many of these deficiencies could be traced to failure by the Office of Education to issue timely program regu-

[2] The Comptroller General of the United States, *Standards for Audit of Governmental Organizations, Programs, Activities and Functions* (Washington, D.C.: General Accounting Office, reprinted in 1974).

lations. With a few exceptions, regulations for programs created or amended in 1972 are still in the draft stage. An important factor was the lack of training for financial aid officers in the intricacies of student aid. Progress has been made in this area—due largely to the efforts of NACUBO.

The Developing Institutions Program

One of GAO's more recent audits involved the Developing Institutions program authorized by Title III of the Higher Education Act. We looked at how well the program was being administered by the Office of Education and by colleges and universities. We were concerned also about whether the program was achieving its objectives and if not, how it might be improved.

The Title III program is intended to strengthen the academic, administrative, and student services of "developing" institutions. These are defined as institutions of higher education having the desire and potential to make a substantial contribution to the nation's higher education resources, but which are struggling for survival, being isolated from the main currents of academic life.

In looking at the legislative history of this program, we saw that the Congress was aware that the definition of an institution to be served was so broad it required the Commissioner of Education to prescribe specific eligibility requirements. Since these criteria were not published until May 1974, the program operated for nine years without specification of what type of institution should receive funds.

The Office of Education contracted for an evaluation study of the program covering fiscal years 1966 through 1971. The contractor's report stated:

> ". . . there is no single characteristic—apart from the fact they did get title III funding—which sets the 'developing institutions' apart from other comparable institutions of higher education in the United States."[3]

This observation led to several interesting questions:

How did the Office of Education decide which institutions could participate in the program?

Were its criteria applied consistently?

How did the office know when an institution no longer was in need of program support?

To answer the first two questions, GAO analyzed statistically the office's eligibility and grant award determinations for school year 1973-74. We found that the institutional characteristics shown statistically to have a significant impact on such decisions generally were not among those characteristics that program officials told GAO they had used.

Further, the institutional characteristics that GAO's analyses uncovered did not appear to provide the kind of information necessary to determine whether an institution was struggling for survival or how an institution was attempting to improve institutional quality. If eligibility determinations continued to be made this way, no one could be sure that institutions intended to be helped by the legislation were receiving the funds.

The absence of a definition of a developing institution made an assessment of program benefits at the national level impossible. Because the office had not defined developing institutions at the time of our work, such an assessment could not be made.

Since GAO was interested also in how the program was administered by institutions, we visited ten in the southwest that had been in the program for some time. We found some relatively minor problems dealing with managerial efficiency in the budgeting and accounting areas. However, GAO attempts to assess program benefits were thwarted. These institutions had not planned their Title III activities adequately. Plans that include measurable objectives and the attendant measurable indicators of success are essential to program effectiveness evaluation. But the justifications for activities that GAO looked at usually did not contain specific objectives and a statement of how the funds would be expected to effect the development of institutions.

International Development Grants, Contracts

An important educational program involved the Agency for International Development. During fiscal years 1967 through 1975 the agency awarded about $442 million to U.S. universities to help carry out overseas assistance programs. These awards included:

1. Grants to develop the capability of universities to deal with problems of less developed countries.
2. Contracts to provide a variety of technical assistance activities in the U.S. and in less developed countries.
3. Contracts to perform population, agriculture, and health research.
4. Contracts to develop educational institutions overseas.

The contracts and grants usually were awarded noncompetitively. When unsolicited proposals are developed by the contractor or grantee, the contracting agency is

[3] Harold L. Hodgkinson and Walter Schenkel, "A Study of Title III of the Higher Education Act: The Developing Institutions Program" (Center for Research and Development in Higher Education, University of California, Berkeley, California, January 1974.)

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spared the task of stating objectives for the project contemplated as would be done if a formal request for proposal were prepared. Contracting officers in the Agency for International Development told GAO that the most common deficiency in project proposals was the absence of a scope of work to which a contractor or grantee could be held. Naturally, this made GAO's attempt to evaluate performance difficult if not impossible. Of course, this is not entirely the fault of the contract or grant recipient. It is the agency's job to assure that it obtains only those services needed to meet its programming requirements.

Private Higher Education

As I mentioned earlier, much concern has been voiced in the last few years about the future of independent institutions of higher education. Many people are quite concerned that the nation may be in danger of losing a valuable educational resource. As a trustee of two such institutions and as a member of the Commission on Higher Education of the United Methodist Church, I am acutely aware of this concern.

The pendulum of federal support for higher education has swung from institutional support in the 50s and 60s to student support in the 70s. The institutional aid programs of the past helped develop the capacity to educate in both the public and private sector but our concern is that federal programs today may not be treating the private sector equitably. GAO presently is looking into the problem to determine which part of private higher education is in the most serious trouble, what actions are being taken by these institutions to remedy their conditions, and what effect federal, state, and local programs have on these institutions and whether changes in programs are needed.

Many of the concepts of performance auditing can be used in overseeing activities at colleges and universities. Of course, the best situation would be to develop this capability within the institution's internal audit budget, or program analysis staff. In reality, however, only the larger institutions may have such units available.

Program evaluation seeks to find out to what extent a program or activity is achieving the goal for which it was created.

Performance audit concepts, particularly those that deal with program results, can and should be made a part of institutional management philosophy. For each program or activity the business officer can ask him or herself these three questions:

Have I, or has upper echelon management, defined specific objectives?

Do we have specific measurable outcomes in mind?

Do we have a system to collect data that will measure those outcomes?

I think we all realize that there are practical problems associated with the performance audit approach in higher education. Some of the problems are outside the control of the institutions. For instance, objectives for federal and state programs—whether in law, regulation, or program manuals—often are vague. A closely related problem stems from the way federal funds are channeled to the various institutions.

There are a myriad of grant-in-aid, project grant, and contract programs. Simply finding out that these programs exist and deciphering published materials to learn how the funds can be used is a challenge. Once voluminous applications are prepared and approvals received, institution management faces a severe test in organizing to carry out the programs, accounting for the funds, and complying with the multitude of administrative requirements that accompany stewardship.

We in GAO are not insensitive to the problems colleges and universities face in this area. We have issued many reports or have work underway dealing with the need for simplifying participation in federal grant programs, particularly in applications and reports.

Public confidence in the relevance and value of a traditional college education has been shaken. . . . College-aged youth may for the first time deliberately choose to become less well-educated than their parents.

In addition, in 1972 the Commission on Government Procurement, on which I served, addressed the need for improvement in this area. Senator Lawton Chiles of Florida, also a member of the Commission, has actively pursued the implementation of the recommendations of the Commission.

One bill, which passed the Senate but not the House in the 93d Congress, would require the Office of Management and Budget to study the whole area of federal assistance programs to develop a better understanding of alternative means of implementing grants and to develop a comprehensive system of guidance. This bill is S. 1437 in the current Congress.

A second bill (S. 3359) would go farther. It would establish a "Commission of Federal Aid Reform" to make a broad study. The Commission's objective would be to bring about a comprehensive system of guidance for federal aid and assistance designed to eliminate unnecessary red tape and regulation of aid recipients, provide more efficient delivery of federal assistance, and enable the government and recipients of assistance to rebalance and control their roles, responsibilities, and authorities. We support these efforts. Improvements in this area should increase opportunities to devote more attention to performance evaluation rather than to the less exciting and less rewarding task of grappling with the system itself.

Existing financial circumstances now compel institu-

tions of higher education to face the dilemma of rising costs and salaries and the decreasing ability to raise funds through tuition and contributions. Faculty must face the fact that higher salaries also must carry commitments to increase productivity. The nature and propriety of academic expenditures must come under increasing scrutiny of management surveys.

Most of the recent writings in higher education have stated emphatically that higher education needs to find ways to augment existing resources and to become more efficient, if it is to survive. As the top management and boards of trustees at institutions of higher education try to evaluate present programs and develop new ones, they will need to rely heavily on business administrators. Developing the "performance management" philosophy, using performance audit concepts, will go a long way toward aiding boards of trustees in making the difficult choices affecting the future of our nation's campuses.

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